

Message Text

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FM AMEMBASSY MANAGUA

TO SECSTATE WASHDC 6868

C O N F I D E N T I A L SECTION 2 OF 2 MANAGUA 2757

4. IF, AS WE SUSPECT, THE IMF'S OWN ANALYSIS OF NICARAGUA'S EXPORT AND ECONOMIC GROWTH POTENTIAL AND OF THE GON'S REVENUE GENERATING POTENTIAL OVER THE NEXT FEW YEARS IS LESS OPTIMISTIC THAN THE CENTRAL BANK'S PROJECTIONS, THEN THE IMF'S EVENTUAL REPORT SHOULD SHOW A WORSENING DEBT SITUATION WHICH ONLY THE ADOPTION OF NEW REVENUE MEASURES AND BASIC ECONOMIC POLICY CHANGES MIGHT ALLEVIATE. SUCH AN IMF FINDING WOULD MEAN THAT ANY STAND-BY AGREEMENT COULD TAKE CONSIDERABLE TIME TO ARRANGE AND WOULD REQUIRE A SPECIFIC STABILIZATION PROGRAM ENTAILING NEW REVENUE MEASURES. UP TO NOW, THE SOMOZA GOVERNMENT HAS BEEN ADAMANT AGAINST PUSHING THROUGH ANY NEW TAX MEASURES. WE UNDERSTAND FROM RELIABLE SOURCES THAT PRESIDENT SOMOZA HAD INDICATED TO PREVIOUS IMF AND WORLD BANK TEAMS THAT HE WOULD NOT EVEN LISTEN TO SUGGESTIONS THAT NEW TAXES SHOULD BE LEVIED. WE THINK THAT NOW, HOWEVER, HE AND HIS GOVERNMENT ARE NO LONGER IN A POSITION TO RESIST SUCH SUGGESTIONS. MOREOVER, SOMOZA IS CURRENTLY AT ODDS WITH MUCH OF NICARAGUA'S PRIVATE SECTOR ON POLITICAL GROUNDS AND HE WOULD PRESUMABLY BE LESS UNWILLING TO CONSIDER INCREASING THAT SECTOR'S TAXES AT THIS TIME.

5. THE FOLLOWING COMMENTS BY KNOWLEDGEABLE U.S. AND LOCAL SOURCES MAY SHED FURTHER LIGHT ON THE CENTRAL BANK'S CURRENT EFFORTS TO OBTAIN NEW FINANCING. ACCORDING TO THESE SOURCES, CENTRAL BANK PRESIDENT ROBERTO INCER HEADED A GROUP OF PROMINENT NICARAGUAN OFFICIALS (INCLUDING MINECON BLANDON, MINFIN GENIE, INFONAC PRESIDENT SPENCER, AND BAVINIC PRESIDENT PARRALES) WHICH VISITED HEADQUARTERS OF VARIOUS US BANKS THIS PAST SPRING. THE THRUST OF INCER'S MESSAGE RE-

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PORTEDLY WAS THAT NICARAGUA NEEDED TO BORROW \$170 MILLION THIS YEAR. \$30 MILLION WAS TO GO TO RESTRUCTURE BAVINIC'S DEBT, ANOTHER 30 MILLION FOR GEOTHERMAL DEVELOPMENT (WHICH JAPAN WAS ALREADY COMMITTED TO FINANCE), AND THE BALANCE WOULD BE EARMARKED FOR HYDRO-

ELECTRIC IMPROVEMENTS AND FINANCING THE BUDGET DEFICIT.

6. INCER REPORTEDLY TOLD HIS U.S INTERLOCUTORS THAT NICARAGUA'S DEBT RATIO WOULD REACH 18 PERCENT IN 1979 BUT THAT IT WOULD DROP BACK TO 13 PERCENT IN 1980, 1981 AND BEYOND. INCER EXPLAINED, SOURCES SAY, THAT NICARAGUA WAS EXPERIENCING A TEMPORARY FINANCIAL SQUEEZE OWING, INTER ALIA, TO THE MATURING THIS YEAR AND NEXT OF POST-EARTHQUAKE LOANS.

7. INCER HINTED THAT THE GON HAD ALREADY ASKED THE IMF FOR A STAND-BY AGREEMENT (ALTHOUGH IT APPARENTLY HAD NOT YET DONE SO) AND GAVE THE IMPRESSION THAT NICARAGUA WAS ASSURED OF GETTING \$50 MILLION FROM THE IMF. HE ALSO CLAIMED THAT HE HAD FORMED A "CLUB" OF EIGHT OF AMERICA'S LARGEST BANKS (REPORTEDLY INCLUDING CITIBANK, BANK OF AMERICA, CROCKER, WELLS FARGO, IRVING TRUST, AND MANUFACTURERS HANOVER). ACCORDING TO A U.S. SOURCE, INCER WAS BEING RATHER RESUMPTUOUS IN MAKING THE LATTER CLAIM SINCE ONLY MANUFACTURERS HANOVER HAD EXPRESSED IMMEDIATE WILLINGNESS TO JOIN THE CLUB. THE EIGHT ANTICIPATED CLUB MEMBERS TO CONTRIBUTE \$4 MILLION EACH, MAKING A TOTAL OF \$32 MILLION. THE POSITION OF MOST OF THESE BANKS WAS ONE OF WAIT-AND-SEE, I.E. THEY SAID THAT THEY MIGHT CONTRIBUTE IF THE IMF CAME THROUGH WITH A STAND-BY. (N.B. THE TERMS THOSE BANKS WOULD DEMAND, A SOURCE TOLD US, WOULD BE TWO OR TWO AND ONE-QUARTER PERCENT INTEREST OVER LIBOR, WITH A MAXIMUM OF TWO YEARS MATURITY, AND ONE-HALF PERCENT FRONT-END AND ONE-HALF PERCENT COMMITMENT FEES ADDED ON.

8. WE UNDERSTAND THAT AN IMF STAND-BY AGREEMENT WILL NOT LIKELY BE APPROVED AND IMPLEMENTED, IF AT ALL, MCUCH BEFORE THE END OF 1978.

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IF MOST U.S. COMMERCIAL BANKS CONTINUE TO WAIT FOR SIGNS OF PROGRESS ON THAT AGREEMENT BEFORE COMMITTING THEMSELVES TO PROVIDE NEW LOANS TO THE GON AND ITS AUTONOMOUS AGENCIES, FINANCIAL PRESSURES ON THE GOVERNMENT COULD BECOME EXCRUCIATING. THE CENTRAL BANK IS ALREADY TRYING TO EXERT PRESSURE ON SOME U.S. BANKS TO COME OUT ITS AID, REPORTEDLY BY THREATENING THAT THOSE WHO FAIL TO HELP NOW, WHEN ASSISTANCE IS NEEDED MOST, CAN TAKE THEIR BUSINESS ELSEWHERE WHEN LOCAL CONDITIONS IMPROVE. WE THINK THAT ARGUMENT MAY BE SUFFICIENT TO MOVE SOME LARGE U.S. BANKS TO EXTEND ADDITIONAL CREDITS SOON, PROVIDED THAT EXPLICIT GON GUARANTEES BACK THE LOANS.

9. WE WOULD APPRECIATE RECEIVING FROM U.S. DIRECTOR ON IMF A COPY OF CONSULTATIVE TEAM'S FINAL REPORT, IF AVAILABLE, OR A SYNOPSIS THEREOF.

10. WE WILL REPORT BY SEPTTEL ON CURRENT FINANCIAL SITUATION AS IT AFFECTS BUSINESSMEN AND INVESTORS.

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